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FM AMEMBASSY MANAGUA
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INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC

UNCLAS MANAGUA 002212

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USDOC FOR 4332/ITA/MAC/WH/MSIEGELMAN
3134/ITA/USFCS/OIO/WH/MKESHISHIAN/BARTHUR

E.O. 12958: N/A
TAGS: ECON ETRD KTEX PREL NU
SUBJECT: NICARAGUA: TEXTILE/APPAREL UPDATE

REF: A. SECSTATE 123600; B. SECSTATE 114799

Summary

¶1. (SBU) The textile and apparel sector continues to grow in Nicaragua as firms take advantage of CAFTA-DR market access, relatively low wages, and geographic proximity to the United States. The sector added 6,000 new jobs in 2006, and exports to the United States grew from $525 million to $697 million, a 33% increase. International Textile Group's $100 million denim mill has attracted interest from U.S. apparel manufacturers operating in Nicaragua. However, high electricity prices and poor infrastructure limit the sector's competitiveness. Some firms report increased scrutiny from buyers leery of President Ortega's close relationships with Venezuela and Iran. Government officials, meanwhile, complain that the "one-for-one agreement" will limit the country's ability to take advantage of CAFTA-DR "Trade Preference Levels" for non-originating fabric over the next few years. End Summary.

Textile and Apparel Data

¶2. (U) The sector added 6,000 new jobs in 2006, and exports to the United States grew from $525 million to $697 million, a 33% increase. The following table provides data requested in Ref A:

	2005	2006	2007
Industrial production (millions)	$801	$859	na
Textile/apparel value added (millions)	$158	$199	$225
Textile/apparel % of total trade	19%	20%	na
Textile/apparel exports to the U.S.	$525	$697	$750
Manufacturing employment (thousands)	302	290	na
Textile/apparel employment (thousands)	56	62	67

Note: 2007 figures are full year projections.
Sources: Central Bank of Nicaragua and the Nicaragua Free Trade Zone Commission.

New Investment Thanks to CAFTA-DR . . .

¶3. (SBU) New investment in the textile and apparel sector, much of it in the pipeline before Ortega's January 2007 inauguration, seeks to take advantage of preferential market access granted through CAFTA-DR and proximity to the United States. The largest investment by far is International Textile Group's (ITG) $100 million denim mill. The mill, under construction on the outskirts of Managua, has gained strong support from President Ortega and other FSLN politicians, according to General Manager Steve Maggard. In an August 14 visit to the nearly completed facility, Ortega told

Maggard, "Congratulations. You are working very well, and we are pleased."

¶4. (SBU) ITG's investment has triggered interest from other major apparel companies who had previously subcontracted in Nicaragua but avoided making direct investments. Emilio Noguera, an official with Nicaragua's Free Trade Zone (FTZ) Corporation, told Econoff that U.S. companies VF Corporation and Hanesbrands, as well as Mexican apparel company Kaltex, plan to invest in Nicaragua. Together, these companies could create another 3,000 jobs in Nicaragua, according to Noguera.

¶5. (SBU) Dean Garcia, Executive Director of the Nicaraguan Apparel and Textile Manufacturers' Association (ANITEC), told Econoff that there are 16 firms -- including the companies mentioned by Noguera -- poised to invest up to $38 million in new apparel manufacturing facilities. Of these 16, two are already preparing to operate, including U.S.-owned Tide Manufacturing. In all, this new investment could create 6,500 new jobs. Garcia also sees potential for other investments in the sector, including textile production, threads, and finishing (dying). Currently, Garcia said many apparel companies send their garments to Guatemala for finishing.

. . . While Others Succumb to Price Pressure

¶6. (SBU) Scott Vaughn, President of ANITEC and owner of Rocedes Apparel, told Econoff that he and other ANITEC members face "tremendous price pressure." Rocedes Apparel sells to many well-known U.S. retailers, such as Walmart, one of the most aggressive retailers in seeking price cuts. Vaughn reported that a number of companies had shut down within the past 12 months. Fortex, a Taiwanese company that had operated in Nicaragua since 1992, closed its woven shirt manufacturing facility to consolidate operations in Asia, leaving 700 Nicaraguans unemployed. Others closing recently include South Korean knit-wear manufacturers Uno Garments and Nicotex. Vaughn also noted that U.S.-owned KB Manufacturing closed after parent company Bayer Clothing failed to reach a new agreement with JCPenny. [Comment: There is suspicion that both Fortex and Nicotex closed to thwart workers' attempts to form unions and that both companies intend to reopen under different names. According to labor sources, Nicotex has done this at least once before. End Comment.]

¶7. (SBU) Dean Garcia also told Econoff that electricity outages were an issue for the sector. He said that electricity costs, already the highest in the region, are further inflated when rolling blackouts force firms to run on expensive diesel generators for as long as six hours a day.

¶8. (SBU) Vaughn reported that some companies, including his own, faced increased scrutiny from buyers leery of President Ortega's anti-American rhetoric and close relationships with Presidents Chavez of Venezuela and Ahmadinejad of Iran. Vaughn said Rocedes and other apparel companies had already lost orders from prominent retailers worried they might face public backlash in the future by sourcing from Nicaragua.

Safeguards, Low Wages Provide Some Relief

¶9. (SBU) Garcia noted that U.S. restrictions on imports of certain textiles and apparel have created opportunities for Nicaragua to provide those goods and helped ease pressure to lower prices. Garcia said that Nicaragua has no plans to implement safeguards or other measures to reduce imports of Chinese textiles and apparel.

¶10. (SBU) Wages in Nicaragua are still relatively low. Garcia reported that the average apparel worker earns about $162 per month, with some earning as much as $216, while the minimum wage for the manufacturing sector is $81 per month in rural areas. Garcia sees room for improvement in labor relations. As ANITEC Executive Director, Garcia will put this issue at the front of his agenda.

CAFTA-DR: Tariff Preference Levels and One-for-One
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¶11. (SBU) Nicaragua's CAFTA-DR market access provides the country an

important competitive advantage. In particular, Tariff Preference Levels (TPLs) for non-originating fabrics have provided an instant boost to the sector, according to Garcia. However, MIFIC Director for International Trade Sonia Somarriba recently told Econoff that she believes the boost will be short-lived, as difficulty sourcing fabric in the United States may result in TPL cuts; any shortfall in meeting the "one-for-one agreement," which requires the use of U.S. fabric for certain Nicaraguan apparel exports, is penalized by a reduction in TPL the following year. Garcia of ANITEC separately voiced this concern. He said that apparel companies are in the process of documenting this shortage of U.S. fabric supply.

¶12. (SBU) Technical Secretary Alvaro Baltodano of the FTZ Commission, in coordination with MIFIC, has proposed that fabric produced in Nicaragua be allowed to count toward the one-for-one requirement. In a recent conversation with the Ambassador, Baltodano suggested that otherwise, Nicaragua's TPL will be halved within two years as a result of difficulties sourcing fabric in the United States.

CAFTA-DR: Cumulation with Mexico

¶13. (U) On September 6, 2007, the Nicaraguan National Assembly passed an amendment to Nicaragua's trade agreement with Mexico to allow Nicaragua to implement the CAFTA-DR cumulation agreement and use Mexican fabric in CAFTA-DR apparel exports. Somarriba said that she expected President Ortega to sign the bill into law soon. She said that Nicaraguan apparel exports could grow by as much as 17% under the agreement, with even more growth possible when the limit is increased to 200 million SMEs. Somarriba expressed interest in seeing this provision implemented as soon as possible, that is, before all other parties had amended their agreements with Mexico.

CAFTA-DR: Pocketing Amendment

¶14. (SBU) Somarriba said MIFIC was working with the Ministry of Foreign Affairs to deposit the "pocketing amendment" to CAFTA-DR, which clarifies rules of origin for apparel components, in the archives of the Organization of American States. Simultaneously, MIFIC is preparing legislation to implement the amendment. When completed, MIFIC will send the legislation to President Ortega for review, who will in turn forward it to the National Assembly. Somarriba cautioned that it would be difficult to secure approval for the pocketing amendment because there are no clear benefits for Nicaragua, unlike the accumulation agreement. She concluded that it would take several months, if not longer, to push through the legislation.

Sector Outlook

¶15. (SBU) The Nicaraguan apparel sector is faring relatively well in the face of increased competition from China, thanks in large part to CAFTA-DR trade benefits. New investment in textile production, spurred by CAFTA-DR, will provide an additional boost to the sector. FTZ officials project that by 2008 the sector will employ 75,000 Nicaraguans and export $860 million. In addition to external factors, such as increasing price pressure, that scenario depends on whether Nicaragua can continue to attract investment in the face of Ortega's anti-American, anti-business rhetoric.

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